



MEMORANDUM - OFFICE OF RECOVERY & REINVESTMENT

To: Dan Schooff, Deputy Secretary - Wisconsin Dept. of Administration
JoAnna Richard, Deputy Secretary - Wisconsin Dept. of Workforce Development

From: Chris Patton, Director *CJP*

Re: Financial Review – Southwest Wisconsin Workforce Development Board

Date: March 26, 2010

The Wisconsin Office of Recovery and Reinvestment (ORR) contracted with Jefferson Wells to conduct on-site reviews of non-profit entities that received Recovery Act funding from more than one federal/state program. In summary, the review was primarily financial in scope and encompassed risks and mitigating control activities related to the Entity Level Control Environment, Financial Reporting, Purchasing and Disbursements, Banking/Treasury, HR/Payroll, and Fixed Assets processes, and comprised of the following activities:

- Review of policies, procedures, and documented controls.
- Review of external auditor reports and evidence for remediation of findings.
- Inquiry of management to acquire a general understanding of entity relationships, transaction flows, and monitoring controls.
- Observation of transaction flows and control activities via process walkthroughs.
- Review of system access reports for adequate segregation of duties.
- Review for evidence of operational effectiveness of key controls, including account reconciliations, transaction authorizations, and appropriate disposition of assets.
- Review of transaction detail on a sample basis for evidence that funds have been appropriately accounted for and/or disbursed.

The reviewers met with both management and financial staff to review the activities and controls associated with Recovery Act grants or the administrative financial controls in place prior to receipt of the grant funding. The common grants that have been issued to Southwest Wisconsin Workforce Development Board by various State of Wisconsin agencies include the following:

PROGRAM	STATE/ FEDERAL AGENCY	AWARD AMOUNT
WIA Adult, Dislocated, and Youth Workers	DWD/DOL	\$1,701,120
SCSEP American Recovery Act	DHS/DOL	\$131,869

Additionally, some entities have been awarded funds directly from a federal agency and the controls and procedures associated with these awards were reviewed at a high level.

The on-site review of Southwest Wisconsin Workforce Development Board was performed from February 17th through February 19th, 2010. The review was primarily financial in scope, and focused on the agency's capabilities to mitigate the risk of fraud, waste, and abuse through internal controls including but not limited to management oversight, segregation of duties, and restricted access.

As stated in more detail in the attachment from Jefferson Wells, the review focused on policies and procedures, past audit reports, management and board engagement, transaction flows, system access, operational effectiveness of key controls and transaction details.

Upon completion of the review and examination of the supporting documentation, no instances of fraud, waste or abuse were noted. However, the following observations were noted from the reviewers along with recommendations suggested by ORR that may assist in mitigating any risk associated with the observations:

Whistleblower Policy:

Observation: Though a formalized Whistleblower program is documented, the program cannot assure anonymity for the whistleblower, which increases the likelihood that potentially damaging incidents will not be reported timely or at all. The whistleblower policy indicates that suspect activity should be reported to an employee's supervisor; however, there is no guidance provided on situations that involve suspect activity by the supervisor.

Recommendation: The Recovery Act has very specific whistleblower provisions. To better understand the applicability of these provisions, attached is the link to the United States Office of Management and Budget's website <http://www.recovery.gov/Contact/ReportFraud/Pages/WhistleBlowerInformation.aspx>. As stated in the review documents, best practices would include creating methods of allowing anonymous reporting of fraud or abuse.

Segregation of Duties:

Observation: The lack of segregation of duties increases the risk that errors and/or fraudulent activities will be perpetrated and not detected timely. Noted deficiencies include:

1. Accounting – Independent review of accounting transactions is critical to mitigate the risk of processing inaccurate or fraudulent transactions. Those who are responsible for reviewing journal entries also have system access to perform all accounting functions. The independent review of journal entries may be compromised since the reviewer also has system access to prepare or edit the transactions that are being reviewed. This could result in inaccurate or invalid transactions that would be left undetected.

2. Accounts Payable – The Executive Director, the Director of Finance and both accounting employees have system access to perform disbursement functions (Accounts Payable and Payroll), including access to set up and edit vendors, process invoices / hours for payment, post journal entries to the general ledger, and initiate check runs. Signature is affixed electronically as the checks are printed. By having system access to process payments, the Executive Director's review of the check register against supporting documentation is compromised from a segregation of duties standpoint.
3. Banking/Treasury – The Executive Director and Director of Finance are both bank signatories who have access to check stock which allows manual check writing and they also have access to post journal entries. Although check sequence tracking is accommodated via preprinted numbers on the checks, this control is not adequate to detect the misappropriation of check stock in a concurrent manner (e.g. if checks are taken from the bottom of the stack).

Recommendation: Best practices would include maintaining a segregation of duties or restricting system access to those with reviewer responsibility. Alternatively, the independent review can be assigned to another independent individual without relevant system access and who also possesses competency to perform the review. In addition, persons performing reviews should both sign and date the documents showing when the review was performed.

Management Oversight:

Observation: The lack of a consistent and documented management review process increases the risk that errors and/or fraudulent activities may not be detected on a timely basis. Noted deficiencies include:

1. Accounting – Month end account reconciliations and activity summaries do not provide evidence of a separate preparer and independent reviewer. The lack of an independent review of financial transactions against supporting documentation poses the risk of inaccurate and/or invalid accounting transactions being processed.
2. Accounts Payable - Lack of independent review and proper supporting documentation in the Accounts Payable process poses the risk of unauthorized payment of invalid or fraudulent invoices. Management review becomes especially necessary where proper segregation of duties does not exist.
 - Procurement card statements contain no evidence of review and/or approval prior to being paid. The card holder does not sign to acknowledge that they have reviewed the activity for validity and accuracy, nor does the cardholder's supervisor sign to evidence review and approval of the purchase activity. NOTE: An independent review of the Executive Director's statement would require involvement from a higher authority (e.g. approval by a Board member).

- Claims for meals do not always comply with existing policy.
 - A stamp of the Executive Director's signature is maintained and accessible to the Director of Finance and accounting employees. In addition to the risk of use for inappropriate authorization to pay, there is a risk that the stamp could be used, in conjunction with the Director of Finance signature, to manually create a check
3. Banking/Treasury – Checks received in the mail are opened and recorded to the cash log by the Accounts Payable employee. Either the Accounts Payable or Payroll employee prepares a deposit; the Director of Finance walks it to the bank. A review of the cash receipts log and related bank statement(s) identified one instance in which a check was deposited (11/24/09 for \$15,014), but not listed on the check log. Since the missing check was not detected by agency management, this reconciliation control did not operate as intended, exposing the agency to potential misappropriation or loss of checks received via mail. However, it was also noted that all ARRA funds are deposited electronically.

Recommendation: Best practices would include requiring basic management oversight and review processes to ensure accurate financial reporting and oversight. Senior management should be responsible for reviewing and approving accounting transactions and reconciliations, accounts payable transactions, cash disbursements, and other similar fiscal matters. Management may also want to review the policies and procedures related to management oversight to determine why some of the noted diversions occurred.

As a state agency with the responsibility for ensuring that sub recipients comply with complex requirements associated with the granting of Recovery Act funds, this information is being forwarded to your attention so that you attend to the issues that may impact your specific program. ORR expects that each agency will take the appropriate steps to mitigate fraud, waste and abuse as it relates to Recovery Act funding. For your convenience, I have enclosed a copy of the Field Review Program Worksheet, which details the scope and results of the review. A copy of this memorandum is also being provided as a courtesy to Southwest Wisconsin Workforce Development Board.

As a result of this review, if you require sub recipients to demonstrate any change of policy or procedure, please forward a copy of any correspondence to the attention of the Recovery Office.

If you have any questions, you can contact Dan Subach at (608) 266-7602 or Art Stauffacher at (608) 267-3672. Thank you for your cooperation in assisting us in assuring the public of the accountability and transparency of Recovery Act funds.

cc: Robert T. Borremans, Southwest Wisconsin Workforce Development Board